

**Bank Alfalah Limited - Afghanistan Operations  
Condensed interim financial information  
(Un-audited)  
For the three months ended 31 March 2017**

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**Independent auditor's review report**

Ernst & Young Ford Rhodes Sidat Hyder  
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Afghanistan

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## INDEPENDENT AUDITORS' REPORT TO THE COUNTRY MANAGER ON REVIEW OF CONDENSED INTERIM FINANCIAL INFORMATION

### *Introduction*

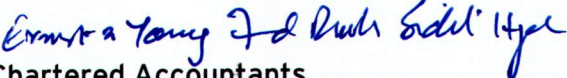
We have reviewed the accompanying condensed interim statement of financial position of **Bank Alfalah Limited Afghanistan** (the Bank) as at **31 March 2017** and the related condensed interim statements of comprehensive income, changes in equity and cash flows for the three months period then ended and notes to the condensed interim financial information (here-in-after referred to as the 'condensed interim financial information'). Management is responsible for the preparation and presentation of this condensed interim financial information in accordance with the requirements of the Law of Banking in Afghanistan and International Accounting Standard No. 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this condensed interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of condensed interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed interim financial information is not prepared, in all material respects, in accordance with the requirements of Law of Banking in Afghanistan and International Accounting Standard No. 34 "Interim Financial Reporting".


  
Chartered Accountants  
Engagement Partner: Shabbir Yunus Khairullah  
Date: 15 May 2017  
Kabul, Afghanistan

**Bank Alfalah Limited Afghanistan**  
**Condensed interim statement of financial position**  
**As at 31 March 2017**

		31 March 2017	31 December 2016
	Notes	(Un-audited) ----- (AFS '000') -----	(Audited) -----
<b>Assets</b>			
Cash and cash equivalents		5,832,116	5,862,717
Investments	4	9,414,020	8,428,591
Loans and advances to banks - net		120,000	541,029
Loans and advances to customers - net		1,581	1,490
Property and equipment		9,246	8,807
Deferred tax asset		-	9,932
Advance tax - net		73,975	88,639
Other assets	5	1,073,946	931,104
<b>Total assets</b>		<u><u>16,524,884</u></u>	<u><u>15,872,309</u></u>
<b>Liabilities</b>			
Deposits from banks	6	813,461	242,795
Deposits from customers	7	13,711,930	14,170,142
Deferred tax liability - net		15,434	-
Short term borrowings		338,550	-
Other liabilities	8	107,633	98,798
<b>Total liabilities</b>		<u><u>14,987,008</u></u>	<u><u>14,511,735</u></u>
<b>Equity</b>			
Share capital		1,000,000	1,000,000
Capital reserve		19,611	19,611
Surplus on revaluation on available for sale investments		113,329	11,863
Retained earnings		404,936	329,100
<b>Total equity</b>		<u><u>1,537,876</u></u>	<u><u>1,360,574</u></u>
<b>Total liabilities and equity</b>		<u><u>16,524,884</u></u>	<u><u>15,872,309</u></u>
<b>Contingencies</b>	9		

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

  
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 Country Finance Manager

  
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 Country Manager

**Bank Alfalah Limited Afghanistan**  
**Condensed interim statement of comprehensive income**  
**For three months ended 31 March 2017**

	Three months ended 31 March 2017 (Un-audited) ----- (AFS '000') -----	Three months ended 31 March 2016 (Un-audited) ----- (AFS '000') -----
Interest income	134,830	70,200
Interest expense	<u>(34,003)</u>	<u>(8,468)</u>
Net interest income	100,827	61,732
Fee and commission income	25,007	56,438
Fee and commission expense	<u>(3,487)</u>	<u>(3,927)</u>
Net fee and commission income	21,520	52,511
Income from dealing in foreign currencies	3,905	4,709
Other income	<u>19,948</u>	<u>41,861</u>
Total operating income	146,200	160,813
Reversal of provisions	4,854	468
<b>Net operating income</b>	<u>151,054</u>	<u>161,281</u>
Personnel expenses	(29,736)	(27,203)
Depreciation	(947)	(1,158)
Other operating expenses	<u>(25,576)</u>	<u>(54,822)</u>
Total operating expenses	<u>(56,259)</u>	<u>(83,183)</u>
<b>Profit before taxation</b>	94,795	78,098
Taxation	<u>(18,959)</u>	<u>(10,848)</u>
<b>Net profit</b>	75,836	67,250
<b>Other comprehensive income</b>		
<b>Items that are or may be reclassified to profit or loss</b>		
Surplus/ (Deficit) on revaluation on available for sale investments	126,832	(2,983)
Related deferred tax	<u>(25,366)</u>	<u>597</u>
Other comprehensive income, net of tax	<u>101,466</u>	<u>(2,386)</u>
<b>Total comprehensive income, net of tax</b>	<u>177,302</u>	<u>64,864</u>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

  
 Country Finance Manager

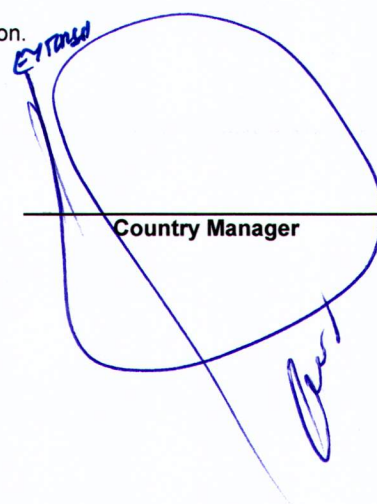
  
 Country Manager

**Bank Alfalah Limited Afghanistan**  
**Condensed interim statement of changes in equity**  
**For three months ended 31 March 2017**

	Capital contributed by Head Office	(Deficit)/ Surplus on revaluation of available for sale investments	Capital reserve	Retained earnings	Total
----- AFS '000' -----					
As at 01 January 2016 (Audited)	1,000,000	(57,338)	7,484	201,665	1,151,811
Total comprehensive income for the three months ended 31 March 2016:					
Profit for the period	-	-	-	67,250	67,250
Other comprehensive income:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	-	(2,983)	-	-	(2,983)
Related tax	-	597	-	-	597
	-	(2,386)	-	-	(2,386)
Total comprehensive income	-	(2,386)	-	67,250	64,864
As at 31 March 2016 (Un-audited)	1,000,000	(59,724)	7,484	268,915	1,216,675
<b>Balance as at 01 January 2017 - (Audited)</b>	<b>1,000,000</b>	<b>11,863</b>	<b>19,611</b>	<b>329,100</b>	<b>1,360,574</b>
Total comprehensive income for the three months ended 31 March 2017:					
Profit for the period	-	-	-	75,836	75,836
Other comprehensive income:					
Fair value reserve (available-for-sale financial assets):					
Net change in fair value	-	126,832	-	-	126,832
Related tax	-	(25,366)	-	-	(25,366)
	-	101,466	-	-	101,466
Total comprehensive income	-	101,466	-	75,836	177,302
<b>As at 31 March 2017 (Un-audited)</b>	<b>1,000,000</b>	<b>113,329</b>	<b>19,611</b>	<b>404,936</b>	<b>1,537,876</b>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

  
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 Country Finance Manager

  
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 Country Manager

**Bank Alfalah Limited Afghanistan**  
**Condensed interim statement of cash flows**  
**For three months ended 31 March 2017**

	Three months ended 31 March 2017 (Un-audited)	Three months ended 31 March 2016 (Un-audited)
	----- (AFS '000') -----	
<b>Cash flows from operating activities</b>		
Profit before taxation	94,795	78,098
<b>Adjustments for:</b>		
Depreciation	947	1,159
Reversal of provisions	(4,854)	-
Loss on disposal of property and equipment	4	-
Unrealised gain on hedged instrument	6,827	3,500
	<u>97,719</u>	<u>82,757</u>
<b>Changes in:</b>		
Loans and advances to banks	421,029	325,530
Loans and advances to customers	4,763	30,651
Advance tax - net	14,664	-
Other assets	(142,842)	41,283
Deposits from banks	570,666	(337,736)
Deposits from customers	(458,212)	(459,852)
Short term borrowings	338,550	-
Other liabilities	(16,951)	(2,738)
	<u>731,667</u>	<u>(320,105)</u>
<b>Net cash generated from /(used in) operating activities</b>	<b>829,386</b>	<b>(320,105)</b>
<b>Cash flows from investing activities</b>		
Increase in investments - net	(858,597)	132,648
Purchase of property and equipment	(1,402)	(268)
Proceeds from disposal of property and equipment	12	-
<b>Net cash (used in) /generated from investing activities</b>	<b>(859,987)</b>	<b>132,380</b>
<b>Net (decrease) in cash and cash equivalents</b>	<b>(30,601)</b>	<b>(187,725)</b>
Cash and cash equivalent at beginning of the period	<u>5,862,717</u>	<u>7,778,009</u>
<b>Cash and cash equivalents at end of the period</b>	<b><u>5,832,116</u></b>	<b><u>7,590,284</u></b>

The annexed notes 1 to 11 form an integral part of this condensed interim financial information.

  
 Country Finance Manager

  
 Country Manager

**Bank Alfalah Limited Afghanistan**  
**Notes to the condensed interim financial statements**  
**For the three months ended 31 March 2017**

**1 STATUS AND NATURE OF BUSINESS**

Bank Alfalah Limited Afghanistan ("the Bank") is a foreign branch of Bank Alfalah Limited, Pakistan and is registered and operating in Afghanistan as a commercial bank. The Bank obtained business license from Afghanistan Investment Support Agency which has been renewed on 03 August 2016. The Bank commenced its operations on 05 September 2005 under the license for commercial banking issued by Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank has two conventional banking branches in Kabul and Herat including one sub-branch in UN Compound Kabul.

The registered office of the Bank is located in Kabul, Afghanistan.

**2 BASIS OF PREPARATION**

This condensed interim financial information of the Bank for the three months period ended 31 March 2017 has been prepared in accordance with the requirements of the International Accounting Standard 34 - Interim Financial Reporting and the Law of Banking in Afghanistan. In case, where requirements differ, the requirement of Law of Banking of Afghanistan takes precedence.

The disclosures made in this condensed financial information have been limited based on the format prescribed by the International Accounting Standard (IAS) 34 - Interim Financial Reporting and do not include all the information required in the annual financial statements. Accordingly, this condensed interim financial information should be read in conjunction with the annual financial statements of the Bank for the year ended 31 December 2016.

**Standards, interpretations and amendments to published approved accounting standards that are effective in the current period**

There are certain new and amended standards and interpretations that are mandatory for the Bank's accounting periods beginning on or after January 1, 2017 but are considered not to be relevant or do not have any significant effect on the Bank's operations and therefore not detailed in this condensed interim financial information.

**3 ACCOUNTING POLICIES**

The accounting policies adopted in preparation of this condensed interim financial information are consistent with those followed in the preparation of the annual financial statements of the Bank for the year ended 31 December 2016.

The estimates / judgments and assumptions used in the preparation of this condensed interim financial information are consistent with those applied in the preparation of the annual financial statements of the Bank for the year ended 31 December 2016.

The financial risk management policies and procedures are the same as those disclosed in annual financial statements of the Bank for the year ended 31 December 2016.

**4 INVESTMENTS**

	Note	31 March 2017 (Un-audited) AFS '000'	31 December 2016 (Audited) AFS '000'
<b>Available for sale investments:</b>			
Foreign bonds	4.1	6,843,268	6,217,029
<b>Held-to-maturity investments:</b>			
Capital notes with DAB	4.2	1,896,773	1,546,427
Bonds	4.3	673,979	665,135
		<b>2,570,752</b>	<b>2,211,562</b>
		<b>9,414,020</b>	<b>8,428,591</b>

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Bank Alfalah Limited Afghanistan  
Notes to the condensed interim financial statements  
For the three months ended 31 March 2017

4.1 The breakup of foreign bonds is as follows:

	Note	31 March 2017 (Un-audited) AFS '000'	31 December 2016 (Audited) AFS '000'
Abu Dhabi Commercial Bank (ADCB)		-	668,928
Third Pakistan International Sukuk Company Limited		347,718	341,458
Kingdom Of Bahrain		356,656	348,729
Indonesia Sovereign Bonds (Sukuks)		-	336,335
Indonesia Indon		272,386	-
Indonesia Indon		170,347	-
South Africa Sovereign		278,237	271,394
Kazakhstan		204,749	201,432
Pakistan Euro - Dollar Bond		780,105	756,654
State of Qatar 2026		672,299	646,173
Turkey Sukuk		236,039	227,243
Oman Sultanat		547,980	669,062
Oman Sultanat		337,304	323,795
Republic of Sri lanka		104,436	99,033
Kingdom Of Bahrain		351,902	343,620
Republic of Indonesia		-	100,774
Republic of Indonesia		34,549	33,626
Saudi International Bond		328,983	318,014
Saudi International Bond		328,983	318,014
Republic of Indonesia		38,050	35,163
Indonesia Indon		155,250	143,449
United Mexican State		35,962	34,133
Saudi International Bond		332,324	-
Oman Sultanat		67,461	-
Arab Republic of Egypt		112,389	-
Arab Republic of Egypt		133,462	-
Arab Republic of Egypt		70,243	-
Oman Sultanat		136,716	-
Oman Sultanat		277,941	-
Kingdom of Jordan		130,797	-
	4.1.1	<u>6,843,268</u>	<u>6,217,029</u>

4.1.1 These bonds are listed at London Stock Exchange. The yield on the bonds ranges from 1.63% to 8.25% (31 December 2016: 1.53% to 8.25%) per annum maturing latest by 08 March 2027.

4.2 These represent investments in capital notes issued by DAB up to a maximum period of one year carrying yield ranging from 5.15% to 6.66%. (31 December 2016: 4.33% to 6.67%) per annum receivable on maturity of respective notes.

4.3 This represents investment in The Islamic Republic of Pakistan and The State of Qatar bonds amounting to USD 10 million carrying yield 7.25% (31 December 2016: 7.13%) and 3.25% (31 December 2016: 3.25%) per annum respectively, maturing latest by 02 June 2026.

5 OTHER ASSETS	Note	31 March 2017 (Un-audited) AFS '000'	31 December 2016 (Audited) AFS '000'
Accrued interest		118,262	69,116
Accrued commission on bank guarantees		10,781	11,070
Advances, deposits and prepayments		6,990	7,118
Restricted deposits with DAB	5.1	894,756	835,727
Receivable against credit card transactions		10,379	13,999
Branch adjustment account		43,880	274
Commission receivable		1,419	6,399
Interest receivable on Interest Rate Swap (IRS)		1,586	1,324
Other asset	5.2	267,396	263,921
		<u>1,355,449</u>	<u>1,208,948</u>
Less: Provision against other assets		<u>(281,503)</u>	<u>(277,844)</u>
		<u>1,073,946</u>	<u>931,104</u>

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**Bank Alfalah Limited Afghanistan**  
**Notes to the condensed interim financial statements**  
**For the three months ended 31 March 2017**

- 5.1 Required reserve account is being maintained with DAB to meet minimum reserve requirement in accordance with Article Reserves Regulation" of the Banking Regulations issued by DAB. These balances are interest free (31 December 2016: Interest free)
- 5.2 This represents an amount placed in nostro account in New York, United States of America which has been put on hold by a commercial bank pursuant to receipt of notice of seizure based on the order passed by the District Court, District of Columbia, USA. There has been no change in the status of this balance since the last audited financials of the bank.

**6 DEPOSITS FROM BANKS**

	<b>31 March 2017 (Un-audited) AFS '000'</b>	<b>31 December 2016 (Audited) AFS '000'</b>
Citi Bank	811,380	223,716
FINCA International Inc.	2,081	19,079
	<u>813,461</u>	<u>242,795</u>

**7 DEPOSITS FROM CUSTOMERS**

	Note	<b>31 March 2017 (Un-audited) AFS '000'</b>	<b>31 December 2016 (Audited) AFS '000'</b>
Current deposits		10,243,601	11,045,322
Saving deposits	7.1	976,781	610,340
Term deposits	7.2	2,332,833	2,322,009
Margin deposits		158,715	192,471
		<u>13,711,930</u>	<u>14,170,142</u>

- 7.1 Saving deposits carry interest rate of 0.55% (31 December 2016: 0.55%) per annum.
- 7.2 Term deposits carry interest rate ranging from 0.75% to 6.25% (2016: 0.75% to 6.25%) per annum and have maturity period ranging from 01 to 12 months (31 December 2016: 01 to 12 months).

**8 OTHER LAIBILITIES**

	<b>31 March 2017 (Un-audited) AFS '000'</b>	<b>31 December 2016 (Audited) AFS '000'</b>
Unearned commission on letter of credit and letter of guarantee	17,214	20,196
Unrealized loss on re-measurement of Interest Rate Swap	16,331	18,254
Interest payable on Interest Rate Swap	7,617	5,361
Accrued expenses	7,213	4,637
Interest payable	42,062	29,675
Payable to HO against staff retirement gratuity	-	-
DAB assessment fee payable	909	2,900
Professional charges	1,263	7,112
Bills payable	4,941	4,849
Provision for law suit	677	5,546
Salaries and allowances payable	2,096	-
Bonus payable	6,868	-
Others	442	268
	<u>107,633</u>	<u>98,798</u>

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**Bank Alfalah Limited Afghanistan**  
**Notes to the condensed interim financial statements**  
**For the three months ended 31 March 2017**

**9 CONTINGENCIES**

**9.1 Contingencies**

<b>9.1.1 Guarantees</b>	<u><u>841,296</u></u>	<u><u>938,126</u></u>
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These represent bid bonds and performance based guarantees issued by the Bank.

**9.1.2** Audit department of the Ministry of Finance (MoF) conducted audit of the Bank for the years 2009 and 2010 and imposed an additional demand amounting of AFS 45,269,600. The Bank has accepted the demand of AFS 25,700,000 and same was paid to MoF. Subsequent to the period end, on 27 July 2016 the remaining amount of AFS 19,569,600 was paid under protest by the Bank. The decision of the department was appealed by the Bank, however, due to lapse in the specified time mentioned in the Tax Administration Law (Tax Law), the department did not respond to the appeal. According to article 11 of the Tax Law, the Dispute Resolution Board of the MoF is the next stage of appeal, however, since the Dispute Resolution Board has not been established yet, therefore, as per the article 12 of the Tax Law, the Bank has filed the case in authorised court of law to get a refund of amount paid in protest. The case is now in Public Tribunal of Primary Civil Court of Kabul, the judges for the hearing of the case are appointed, and written statement and defence will be provided to the court soon.

**10 RELATED PARTY TRANSACTIONS**

The Bank is a fully owned branch of Bank Alfalah Limited Pakistan. Related parties comprise associated undertakings, majority shareholders, retirement benefit plans, directors of the Head Office of the Bank and the key management personnel of the Bank and its Head Office. Transactions with key management personnel have been carried out as per terms of their employment. Details of transactions and balances with related parties are as follows:

**10.1 Transactions with other related parties**

Name of group companies	Nature of transactions	31 March 2017 (Un-audited) AFS '000'	31 December 2016 (Audited) AFS '000'
			Three months ended 31 March 2017 (Un-audited) AFS '000'
Bank Alfalah Limited Bahrain	Placements made	-	3,809,310
	Placements matured	-	4,277,120
	Income earned on placements	-	2,901
	Interest expense on Borrowing	169	-
	Interest income on Interest Rate Swap	2,853	1,696
	Interest receivable on Interest Rate Swap	1,586	990
	Interest expense on Interest Rate Swap	6,485	6,603
	Interest payable on Interest Rate Swap	7,617	7,788
Bank Alfalah Limited - Pakistan	Profit remitted to Head Office	-	102,975
	Insurance premium paid to Alfalah Insurance Company Limited	1,289	-

**Balances with related parties as at period / year end are as follows:**

Name of group company	Nature of transaction	31 March 2017 (Un-audited) AFS '000'	31 December 2016 (Audited) AFS '000'
			317

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10.2 Key management compensation

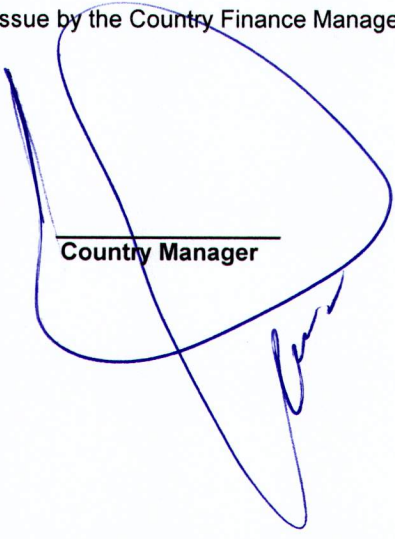
	31 March 2017 (Un-audited) AFS '000'	31 March 2016 (Un-audited) AFS '000'
Salaries and benefits	<u>7,723</u>	<u>7,018</u>

In addition to their salaries, the Bank also provides non-cash benefit to executives which include furnished accommodation.

11 DATE OF AUTHORISATION FOR ISSUE

This condensed interim financial information have been authorized for issue by the Country Finance Manager and Country Manger of the Bank on 25 May 2017

  
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 Country Finance Manager

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 Country Manager